

NAME: _____ CLASS PERIOD: _____

Decision Making

A fundamental lesson in economics is that there is no such thing as a free lunch. There is no such thing as a free lunch because individuals, businesses, governments, and economic systems all face scarcity. Because of scarcity, we must make choices; and the consequence of every choice is that something else is not chosen. This means that for every personal, workplace, and governmental decision there is a cost—the something else not chosen. A wise decision involves weighing the benefits and costs of the alternatives from which individuals must choose.

There is no getting around the condition of scarcity, or the choices and costs it creates. We face scarcity because our resources are limited and our economic wants are unlimited. Economic wants always outstrip the limited resources available to satisfy them. Without scarcity, it would be a different world; everything you wanted would be freely available.

People's wants are never fully satisfied. No matter what we already have, we would like to have more. The United States is one of the richest nations in the world, but poverty still exists. Even wealthy individuals desire more. Few of us are ever fully satisfied with our education, health care, and standard of living. Most everyone would like to have a higher income. Our wants are limited only by our imagination. Wants also change over time. Twenty years ago, few, if any, Americans had DVD/Blu-ray players, cell phones with cameras and video, MP3 players, car navigation systems, or digital cameras. Millions of people now own these items. Unfortunately, our resources are limited. We have only so many human resources, natural resources, and capital resources.

Human resources are the physical, intellectual, and creative talents of people. When you are working, you are using human resources. Also, when you get a better education, you are said to have improved your human capital. When people are better educated, they tend to be more productive; as a result, they usually enjoy a higher standard of living.

Natural resources are gifts of nature. They include water, forests, natural gas, oil, and climate. Natural resources are not the only resources a nation needs to become rich, but they can assist countries in improving economic outcomes.

Capital resources include those goods that are used to produce other goods and services. Tools, factories, equipment, and office buildings are examples of capital resources. In economics, the word capital refers to items used to produce something else. Capital does not refer to money.

Money is best thought of as a medium of exchange. It is used to make the buying and selling of goods and services easier. People like more money because they can use it to buy more stuff. It's the stuff that is important. Printing more money does not mean that more stuff has been produced, nor does it mean that we are all bet-

ter off. Imagine how easy it would be to improve our living standards if all we had to do was print more money. None of us would have to go to work if this was all it took to be better off!

It should be clear that more money does not eliminate or even reduce scarcity. Scarcity is a fundamental condition of all economic systems. Because of scarcity, we must make choices. Every choice involves an opportunity cost. The opportunity cost of a decision is the next-best alternative that is given up. It is the value of what you give up in order to get what you want.

Questions:

- a. Why is there no such thing as a free lunch?
- b. Give some examples of natural resources, human resources, and capital resources.
- c. What is capital?
- d. Why do economists NOT view money as capital?
- e. What is an opportunity cost?